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Private Sector Division work plan and proposed budget for 2005

Summary

The Executive Director presents the Private Sector Division (PSD) work plan and proposed budget for 2005.

In 2005, PSD plans to generate $496.1 million in net consolidated income, comprising $306.1 for regular resources and $190.0 million for other resources. This will be achieved with expenditures of $96.9 million.

The formal decision to be made on the basis of the present document is the adoption of the draft resolutions relating to the budget proposal contained in paragraph 48.

* E/ICEF/2005/1.

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I. Overview

A. Introduction — outlook for 2004

1. For 2004, the latest estimate projects a positive financial result for the Division similar to that of the prior year. Net consolidated income is expected to reach $461.2 million, which is about the 2003 actual level. Consolidation and stabilization of the organizational structure continued, while business objectives and strategies were further made more focused in closer collaboration with National Committees for UNICEF and other partners.

2. Other PSD achievements in 2004 are mainly as follows:

(a) Improved work processes in connection with the new business planning cycle have been introduced to ensure more timely and efficient development of the collections and marketing plans as of 2005;

(b) Full consolidation of management and support activities in the Geneva office was completed. Team-based approaches have greatly enhanced efficiency and cross-functional collaboration.

(c) New annual revenue and expenditure reporting formats (Revenue and Expenditure Reports) for National Committees were implemented in 2003. These greatly enhance transparency and facilitate benchmarking.

(d) With some exceptions in the non-card area, service delivery to PSD sales partners was maintained, while the offer was broadened significantly.

(e) Communication and collaboration between PSD, the Regional Office for Europe, National Committees and field offices continued to be fostered and expanded. Various events, including the Global Fundraising Forum, the communications workshop and the Global Cards and Gifts campaign meeting, have promoted cooperation across divisional boundaries.

B. 2005 objective

3. For 2005, the objective of PSD is to achieve net consolidated income of $496.1 million, which is 7.6 per cent higher than the 2004 latest estimates. This net consolidated income comprises $306.1 million for regular resources (5.1 per cent higher than the 2004 latest estimate) and $190.0 million for other resources (11.8 per cent higher than the 2004 latest estimate). The ratio of regular resources to other resources net income is 62 to 38. See tables 1 and 1A.

C. Consolidated income and expense projections for 2005

4. Two formats of the PSD income statement are included in the present work plan and budget document: table 1 — PSD income statement; and table 1A — Net income after allocation of operating expenses by revenue-generating activity (management statement — supporting table 1).

5. Table 1 reflects PSD results contained in the financial report that is submitted and noted by the Executive Board. This table is prepared in accordance with

statutory requirements. Table 1A is a management statement showing the PSD operating results of its two revenue-generating activities, sales and fund-raising. This statement presents the allocation of costs of both marketing and support services between sales and fund-raising to measure the net contribution of each activity.

6. As indicated in table 1, PSD net consolidated income for 2005 is projected at $496.1 million, which is $34.9 million (7.6 per cent) higher than the 2004 latest estimates. Without allocating operating expenses between the two revenue-generating activities, the projected 2005 net PSD income (regular resources) of $306.1 million comprises net operating income from card and gift sales of $51.4 million and from fund-raising of $271.8 million, offset by the cost of investment funds of $17.1 million to support fund-raising and sales initiatives.

7. As illustrated in table 1A, 82 per cent ($251.4 million) of the regular resources income is attributable to fund-raising activities, and 18 per cent ($54.7 million) to sales of cards and gifts.

8. In the area of fund-raising, the net operating income (before investment funds) for regular resources for 2005 is projected at $265.2 million, compared with the 2004 latest estimate of $252.0 million (see table 1A). In addition, for 2005, $190.0 million of other resources income are projected, an increase of $20.0 million (11.8 per cent) over the 2004 latest estimates.

9. For cards and gifts, sales volume is projected at 124 million cards and gross proceeds at $161.0 million. This is an increase of 6 million in sales volume and $5.0 million in gross proceeds over the 2004 latest estimates. After allocation of operating expenses, the net operating income from card and gift sales (before investment funds) is projected at $58.0 million, compared with the 2004 latest estimate of $55.6 million (see table 1A).

10. Consolidated expenditure for 2005, as summarized in table 2, is projected at $96.9 million, which is $6.0 million (6.6 per cent) more than the 2004 latest estimates. This increase comprises:

(a) higher operating expenses ($3.5 million) due to inflation of 4 per cent ($1.7 million), increase in staff strength, mainly at field offices, and additional research and development in promising areas such as e-greetings, short message service (text messages) and digital asset management ($1.8 million);

(b) higher investment funds ($0.7 million), to continue to drive innovation and the roll-out of successful sales and fund-raising methods and to provide structural support to new emerging markets (UNICEF field offices) and young National Committees in the European Union accession countries;

(c) higher cost of goods delivered ($1.7 million) due to projected growth in sales volume, increased quality of cards and gifts as well as further pressure on production costs following the current oil price hike;

(d) higher commissions ($0.1 million) in line with a projected increase in sales at field offices.

11. In accordance with Executive Board decision 2004/2 (E/ICEF/2004/7/Rev.1), paragraph 2, should the overall proceeds increase to the levels indicated in column III (see table 7), expenditures are also allowed to increase to the levels indicated in

column III of the same table. As indicated in table 2, consolidated expenditures for 2004 are estimated at $90.9 million, which is $1.9 million (2 per cent) higher than the 2004 approved budget at medium projection. However, this is still $1.6 million lower than the 2004 approved budget at high projection of $92.5 million indicated in column III of table 7 of document E/ICEF/2004/AB/L.1. Since the estimated proceeds from PSD activities in 2004 are significantly higher than those indicated in the above-mentioned column III (high projection), the estimated 2004 expenditures are within the approved (high projection) budget.

D. Human resources

12. The total number of posts will increase in 2005 by 11, from 205 to 216. While the number of international Professional posts decreases by one, the number of national Professional posts will increase by four, and General Service posts by eight. Only 1 additional (General Service) post will be established at headquarters, the remaining 10 posts will be added to field offices' structure. This reflects a realignment and strengthening of functions at field offices that offer opportunity for income growth, mainly in Latin America. A majority of the posts are regularized current temporary positions with no cost implications for PSD. At PSD headquarters in Geneva and in connection with a redistribution of tasks among offices in Geneva and New York, one P-5 post is proposed to be replaced by a P-3 post.

13. In view of the strong potential and general state of development in Latin America, the overall programme of advocacy and resource mobilization in the region will be realigned. In this regard, the existing P-5 post of PSD senior regional officer is proposed to be replaced with a more senior manager at D-1 level functioning as a senior strategy development and project instigator with regional responsibilities for external relations and resource mobilization for UNICEF. The D-1 post will be charged with promoting the UNICEF brand throughout the region as well as with developing and implementing a regional fund-raising and partnership strategy that will complement the available resources of field offices in the region.

Table 1
PSD income statement — 2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget
(In millions of United States dollars)

	2003 actual	%	2004 approved budget[a]	%	2004 latest estimates	%	2005 proposed	%	Variance 2005 vs. 2004 latest estimates $	%
Gross proceeds — card and gift sales	151.5		142.0		156.0		161.0		5.0	3.2
Less: Retention/commissions and direct expenses at field offices	52.4	34.6	42.0	29.6	54.5	34.9	56.1	34.8	1.6	2.9
Net proceeds — card and gift sales	99.1		100.0		101.5		104.9		3.4	3.3
Less: Cost of goods delivered	29.1	19.2	30.5	21.5	32.6	20.9	34.3	21.3	1.7	5.2
Operating expenses	20.2	13.3	24.8	17.5	24.8	15.9	26.2	16.3	1.4	5.6
Provision for doubtful accounts	8.2		1.0		1.0		1.0		-	-
Add: Other income	5.5		8.0		6.0		8.0		2.0	33.3
Net operating income — card and gift sales	47.1	31.1	51.7	36.4	49.1	31.5	51.4	31.9	2.3	4.7
Net operating income — private sector fund-raising	249.5		208.7		258.5		271.8		13.3	5.1
Less: Investment funds	13.5		16.4		16.4		17.1		0.7	4.3
Total net operating income	283.1		244.0		291.2		306.1		14.9	5.1
Less: Exchange rate adjustment	(6.3)									
Net income — regular resources	289.4		244.0		291.2		306.1		14.9	5.1
Add: private sector fund-raising other resources	172.2		180.0		170.0		190.0		20.0	11.8
Net consolidated income	461.6		424.0		461.2		496.1		34.9	7.6
										%
Card sales volume (millions)	117		130		118		124		6	5.1

[a] As approved by the Executive Board (decision 2004/2, paragraph 2).

Table 1A

Net income after allocation of operating expenses by revenue-generating activity
2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget: Management statement — supporting table 1

(In millions of United States dollars)

	2003 actual			*2004 approved budget*			*2004 latest estimates*			*2005 proposed*		
	Card and gift sales	*Private sector fund-raising*	*Total*	*Card and gift sales*	*Private sector fund-raising*	*Total*	*Card and gift sales*	*Private sector fund-raising*	*Total*	*Card and gift sales*	*Private sector fund-raising*	*Total*
Gross proceeds	151.5			142.0		142.0	156.0		156.0	161.0		161.0
Less: Retention/commissions and direct expenses at field offices	52.4		52.4	42.0		42.0	54.5		54.5	56.1		56.1
Net proceeds	**99.1**	**258.5**	**357.6**	**100.0**	**220.0**	**320.0**	**101.5**	**270.0**	**371.5**	**104.9**	**285.0**	**389.9**
Less: Cost of goods delivered	29.1		29.1	30.5		30.5	32.6		32.6	34.3		34.3
	70.0	**258.5**	**328.5**	**69.5**	**220.0**	**289.5**	**68.9**	**270.0**	**338.9**	**70.6**	**285.0**	**355.6**
Less: Marketing expenses	5.0	9.0	14.0	6.2	11.3	17.5	6.2	11.5	17.7	7.1	13.2	20.3
	65.0	**249.5**	**314.5**	**63.3**	**208.7**	**272.0**	**62.7**	**258.5**	**321.2**	**63.5**	**271.8**	**335.3**
Less: Support services	10.4	4.8	15.2	12.7	5.9	18.6	12.6	6.0	18.6	13.0	6.1	19.1
Provision for doubtful accounts	1.4	6.8	8.2	0.5	0.5	1.0	0.5	0.5	1.0	0.5	0.5	1.0
	53.2	**237.9**	**291.1**	**50.1**	**202.3**	**252.4**	**49.6**	**252.0**	**301.6**	**50.0**	**265.2**	**315.2**
Add: Other income	5.5		5.5	8.0		8.0	6.0		6.0	8.0		8.0
Net operating income before investment funds	**58.7**	**237.9**	**296.6**	**58.1**	**202.3**	**260.4**	**55.6**	**252.0**	**307.6**	**58.0**	**265.2**	**323.2**
Less: Investment funds	1.9	11.6	13.5	3.4	13.0	16.4	3.2	13.2	16.4	3.3	13.8	17.1
Total net operating income	**56.8**	**226.3**	**283.1**	**54.7**	**189.3**	**244.0**	**52.4**	**238.8**	**291.2**	**54.7**	**251.4**	**306.1**
Less: Exchange rate adjustment	(2.2)	(4.1)	(6.3)									
Net income — regular resources	**59.0**	**230.4**	**289.4**	**54.7**	**189.3**	**244.0**	**52.4**	**238.8**	**291.2**	**54.7**	**251.4**	**306.1**
Add: other resources		172.2	172.2		180.0	180.0		170.0	170.0		190.0	190.0
Net consolidated income	**59.0**	**402.6**	**461.6**	**54.7**	**369.3**	**424.0**	**52.4**	**408.8**	**461.2**	**54.7**	**441.4**	**496.1**
Operating expenses												
Marketing expenses	5.0	9.0	14.0	6.2	11.3	17.5	6.2	11.5	17.7	7.1	13.2	20.3
Support services	10.4	4.8	15.2	12.7	5.9	18.6	12.6	6.0	18.6	13.0	6.1	19.1
Provision for doubtful accounts	1.4	6.8	8.2	0.5	0.5	1.0	0.5	0.5	1.0	0.5	0.5	1.0
Investment funds	1.9	11.6	13.5	3.4	13.0	16.4	3.2	13.2	16.4	3.3	13.8	17.1
Total operating expenses and investment funds	**18.7**	**32.2**	**50.9**	**22.8**	**30.7**	**53.5**	**22.5**	**31.2**	**53.7**	**23.9**	**33.6**	**57.5**
% to total operating expenses and investment funds	**36.7**	**63.3**	**100.0**	**42.6**	**57.4**	**100.0**	**41.9**	**58.1**	**100.0**	**41.6**	**58.4**	**100.0**

Table 2
Summary of expenditures — 2003 approved budget, 2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget
(In millions of United States dollars)

	2003 approved budget[a]	2003 actual	2004 approved budget[b]	2004 latest estimates[c]	2005 proposed	Variance 2005 vs. 2004 latest estimates $	Variance 2005 vs. 2004 latest estimates %
Marketing							
Commissions — field offices	1.6	0.6	1.2	1.1	1.2	0.1	9.1
Cost of goods delivered	30.5	29.1	30.5	32.6	34.3	1.7	5.2
Operating expenses	20.4	25.3	22.3	22.2	25.2	3.0	13.3
Subtotal	**52.5**	**55.0**	**54.0**	**55.9**	**60.7**	**4.8**	**8.5**
Support services							
Operating expenses	16.4	15.2	18.6	18.6	19.1	0.5	2.7
Investment funds	15.0	13.5	16.4	16.4	17.1	0.7	4.3
Total expenditures	**83.9**	**83.7**	**89.0**	**90.9**	**96.9**	**6.0**	**6.6**

[a] In accordance with Executive Board decision 2003/4, paragraph 2, the approved budget reflected is the high projection (column III, table 7 of document E/ICEF/2003/AB/L.3).
[b] As approved by the Executive Board (decision 2004/2, paragraph 2).
[c] In accordance with Executive Board decision 2004/2, paragraph 2, should the proceeds from card and gift sales and/or private sector fund-raising increase to the levels indicated in column III, table 7, of document E/ICEF/2004/AB/L.1, expenditures are also allowed to increase to the levels indicated in column III of the same table.

II. Marketing

A. Introduction

14. The Marketing Group is responsible for revenue generation in collaboration with National Committees and other partners from fund-raising, sales and marketing initiatives.

B. Objectives for 2005

15. The objectives for 2005 are to achieve:

(a) Net consolidated income from fund-raising of $441.4 million (including $251.4 million for regular resources and $190.0 million for other resources) and $54.7 million for sales of cards and gifts (see table 1A);

(b) Net proceeds from fund-raising for regular resources of $285.0 million (5.6 per cent higher than the 2004 latest estimates);

(c) Gross proceeds from sales of $161.0 million (3.2 per cent higher than the 2004 latest estimates) with a card sales volume of 124 million cards (5.1 per cent higher than the 2004 latest estimates).

C. Strategies for 2005

16. In 2004, PSD started to see the benefit of having more integrated strategies throughout the organization for both fund-raising and sales. These strategies were implemented mainly in 2003 and have been instrumental in achieving the strong results expected for 2004.

17. PSD plans to continue to pursue these proven strategies in 2005. The fund-raising and sales strategies have been divided into three groups: a) those "common" to both sectors, b) those "specific" to fund-raising, and c) those "specific" to cards and gifts.

Common strategies

18. It is increasingly apparent that some of the drivers of growth are the same for both fund-raising and sales of cards and products, and can represent a true source of competitive advantage. Both income streams are focusing on the areas described below.

19. **Leverage global scale**. Identify successful activities that are locally developed and roll them out quickly on an international scale so that global or international fund-raising and sales campaigns are offered on a scale that only UNICEF can provide.

20. **Build on the unique selling propositions of UNICEF**. Linking all fund-raising and sales activities to the child rights work UNICEF does in the field is clearly proving most relevant to acquiring and retaining our donors and buyers.

21. **Create a long-lasting relationship with our donors and customers**. PSD is actively seeking to retain vast base of buyers and donors. Establishing a long-term relationship allows PSD to count on a more reliable and predictable source of income and on a committed group of supporters that can also play an active advocacy role in their societies.

22. **Develop the corporate business**. Working with socially responsible private companies is proving effective in generating income and leveraging resources for the programme priorities of UNICEF.

23. **Explore new business models and channels**. The new digital and interactive media are changing the lives of people and represent a huge opportunity to reach current and potential donors and buyers more effectively and efficiently.

24. **Continue to build (one team) with PSD and the Regional Office for Europe, National Committees and field offices**. PSD is committed to bringing the great cohesion and integration achieved during 2004 to "excellence" levels in 2005.

25. **Use investment funds to qualify new high-potential opportunities**. PSD will continue to use investment funds to stay ahead of the competition and drive growth by qualifying and rolling out innovative fund-raising and sales initiatives.

Fund-raising strategies

26. In fund-raising strategies, the following approaches will be the predominant drivers of income growth: (a) focus on the four "pillars" of the Strategy: pledge (regular monthly) income, major gifts, legacies and corporate alliances; (b) increase emphasis on training National Committees fund-raisers and facilitate, share and compare with a wider outreach than before; (c) involve key National Committees and UNICEF fund-raisers in joint strategic thinking and decision-making; (d) leverage Internet and other new media fund-raising; (e) increase support to field office fund-raising, targeting field offices with potential, including countries in transition. For more details, refer to the business plan in annex III.

Cards and gift strategies

27. The following strategic choices and focus areas are being pursued to drive income growth for cards and gifts: (a) broaden distribution to new channels; (b) maximize effectiveness of direct marketing; (c) develop the corporate business, (d) offer a unique buying and product experience to stay ahead of the competition; (e) leverage Internet and all new media to cater to younger consumers and develop the corporate business; (f) reinvigorate the relationship with volunteers; (g) develop licensing. For more details, refer to the business plan in annex III.

D. Investment funds

28. In 2005, PSD will continue to invest funds in the most promising areas, focusing on the revitalization of donor support and the launching and implementation of best-practice initiatives both in sales and fund-raising. The constantly growing activities in new European markets will be supported by a specialized fund for countries of Central Europe and the Baltic's (CEB development fund) in the amount of $0.6 million.

29. For 2005, overall investment funds amounting to $17.1 million are proposed, an amount that is $0.7 million (4.3 per cent) higher than the 2004 approved budget. The above funds will include a fund-raising development programme ($13.2 million), market development programme ($3.3 million) and the above-mentioned CEB development fund ($0.6 million).

E. Analysis of 2005 proposed revenues and expenditure

30. Net proceeds from fund-raising activities for 2005 are projected at $475.0 million, of which $285.0 million are for regular resources and $190.0 million for other resources. This represents an increase of $35.0 million (8.0 per cent) compared with the 2004 latest estimates (see table 1A).

31. Gross proceeds from card and gift sales for 2005 are projected to range from a low of $158.0 million to a high of $164.0 million (see table 7). The medium projection is $161.0 million, an increase of $5.0 million (3.2 per cent) over the 2004 latest estimates.

32. Sales volume for 2005 is projected at 124 million cards, an increase of 6 million cards (5.1 per cent) over the 2004 latest estimates (see table 1).

Table 3
Marketing: expenses for 2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget
(In thousands of United States dollars)

Expenditures	*2003 actual*	*2004 approved budget*	*2004 latest estimates*	*2005 proposed budget*	*Changes 2005 vs. 2004 latest estimates*	
					$	*%*
Commissions — field offices	635	1 241	1 107	1 160	53	4.8
Operating expenses						
International posts	4 552	5 151	5 017	5 686	669	13.3
Local posts	1 853	1 931	1 930	2 046	116	6.0
Other post related costs[a]	352	296	296	387	91	30.7
Staff training	59	194	193	158	(35)	(18.1)
Other staff costs[b]	554	451	669	923	254	38.0
Consultants	171	367	430	460	30	7.0
Travel	645	1 026	1 032	1 194	162	15.7
Other operating expenses[c]	354	460	561	587	26	4.6
Furniture and equipment[d]	70	116	109	83	(26)	(23.9)
Research and development	2 194	3 030	3 033	3 424	391	12.9
Field office expenses — product sales	3 139	3 744	3 556	3 836	280	7.9
Field office expenses	2 095	3 226	3 118	3 933	815	26.1
Regional support centre expenses	1 128	1 325	1 299	1 469	170	13.1
Provision for doubtful accounts	8 148	1 000	1 000	1 000	-	-
Subtotal operating expenses	**25 314**	**22 317**	**22 243**	**25 186**	**2 943**	**13.2**
Total expenses	**25 949**	**23 558**	**23 350**	**26 346**	**2 996**	**12.8**

[a] Termination indemnity and reimbursement of taxes.
[b] Short-term assistance, staff welfare and overtime.
[c] Contractual services, rent and maintenance of premises, rental and maintenance of furniture, equipment, communications, supplies and materials, hospitality and miscellaneous services.
[d] Office equipment, computer equipment and computer software.

33. Net proceeds from card and gift sales for 2005, after deducting the amounts retained by National Committees, commissions paid to consignees and direct expenses at field offices ($56.1 million), are projected at $104.9 million, $3.4 million (3.3 per cent) higher than the 2004 latest estimates (see table 1).

34. Other income for 2005 is projected at $8.0 million, an increase of $2.0 million (33.3 per cent) over the 2004 latest estimates (see table 1). This income includes royalties from the sale of licensed gifts, the sale of National Committee products, donations generated from brochure and order forms, bank interest and discounts on purchases.

35. Total operating expenses for the Marketing Group in 2005 are projected at $25.2 million (see table 3), an increase of $2.9 million (13.2 per cent) over the 2004 latest estimates. The marketing expenses of $20.3, as reflected in table 1A, do not

include direct expenses of UNICEF field offices in the amount of $3.9 million and provision for doubtful accounts of $1.0 million. The above increase in operating expenses is due mainly to (a) the increase in the number of staff ($1.0 million related to one post redeployed from Support Services Group, two upgrades and in-grade increment, expansion of the use of short-term assistance, primarily for a design studio and the development of corporate business cards), (b) an increase in field office and regional support centre expenses ($1.3 million, mainly to strengthen fund-raising activities), and (c) an increase in research and development ($0.4 million related to the qualification of new upstream media and products) and travel ($0.2 million).

III. Support Services

A. Introduction

36. The Operations and Finance Group supports PSD income-generating activities. It includes the Director's Office, Operations Support Services, and Finance and Administration.

B. Objectives for 2005

37. The objectives of the Operations and Finance Group are to:

(a) Provide quality cards and products to global sales partners in a timely, accurate and cost-effective manner, ensuring customer service and satisfaction;

(b) Further strengthen the materials management processes in the areas of forecasting and customer relations;

(c) Optimize supply chain management processes in all three phases: planning, manufacturing and logistics;

(d) Harmonize and enhance strategic planning and budgeting procedures along the UNICEF medium-term strategic plan (MTSP) and budget principles; further streamline and enhance financial planning and reporting principles and procedures in collaboration with National Committees and other colleagues in PSD and the Regional Office for Europe, in order to provide more transparency and analytic information for strategic planning and decision-making;

(e) Harmonize the accounting methods of the fund-raising income of National Committee's, as well as enhanced remittance-monitoring, to ensure improved cash inflows and resource mobilization.

C. Strategies for 2005

38. The above objectives will be pursued through the following strategies:

(a) Refine and fully implement the master planning calendar in order to decrease the turnaround time between partners and Operations and Finance for all deliverables;

(b) Ensure the quality of goods and services while complying with international standards and regulations pertaining to safety, the environment and social accountability. Institute monitoring systems to ensure that the principles of UNICEF are respected;

(c) Reinforce production planning and review processes to reduce delivery to sales ratio and to optimize the cost of goods;

(d) Apply digital print production processes in accordance with best industry practices;

(e) Leverage supply chain processes to strengthen inventory management in the area of outbound logistics. Investigate the applicability of new distribution models to the expanded European Union and in the North American Free Trade Association;

(f) Continue regular consultations and meetings with the Regional Office for Europe and the National Committee colleagues to ensure a common understanding of policies, principles and procedures;

(g) Enhance the system functionality of the Financial and Logistics System (FLS) via improved data quality, process flows and staff training;

(h) Collaborate with DFAM to update PSD Financial Regulations and Rules. Define and update key operational and accounting principles and procedures, including relevant field office operations.

D. Analysis of the proposed budget for 2005

39. Total expenses for support services are projected at $19.1 million (see table 4). This is an increase of $0.5 million (2.7 per cent) over the 2004 latest estimates. The increase is primarily due to an annual salary increment ($0.3 million), the expanding use of short-term assistance for development and the distribution of corporate business cards ($0.2 million) and higher staff costs at regional support centres due to the filling of existing vacancies and one upgrade ($0.2 million). There is also an increase in other operating expenses related to inflation ($0.1 million), offset by a decrease in termination indemnities in 2005 ($0.3 million).

Table 4
Support services: expenses for 2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget
(In thousands of United States dollars)

Expenditures	*2003 Actual*	*2004 Approved budget*	*2004 Latest estimates*	*2005 Proposed budget*	*Changes 2005 vs. 2004 Latest estimates*	
					$	*%*
International posts	4 097	4 784	4 840	4 866	26	0.5
Local posts	2 789	3 069	3 035	3 310	275	9.1
Other post related costs[a]	259	748	751	410	(341)	(45.4)
Staff training	19	-	-	-	-	-
Other staff costs[b]	201	129	203	372	169	83.3
Consultants	3	75	75	72	(3)	(4.0)
Travel	211	324	309	369	60	19.4
Other operating expenses[c]	7 033	8 740	8 748	8 825	77	0.9
Furniture and equipment[d]	160	155	160	207	47	29.4
Regional support centre expenses	445	574	433	633	200	46.2
Total expenses	**15 217**	**18 598**	**18 554**	**19 064**	**510**	**2.7**

[a] Termination indemnity and reimbursement of taxes.
[b] Short-term assistance, staff welfare and overtime.
[c] Contractual services and rental and maintenance of premises and furniture and equipment, communications, supplies and materials, hospitality and miscellaneous services.
[d] Office equipment, computer equipment, computer software and plant equipment.

IV. Regional support centres and UNICEF field offices

A. Outlook for 2004

40. Gross proceeds generated by UNICEF field offices from PSD activities in 2004 are projected at $22.6 million (see table 5), with costs estimated at $10.8 million (excluding investment funds), resulting in a net operating income of $11.8 million. This is an increase of $0.7 million over the 2003 results driven by growth in both Fund-raising ($0.4 million) and Sales ($0.3 million). Increasingly field offices are moving to a more holistic approach to income-generation coordinating Fund-raising and Sales in order to leverage synergies e.g. with corporate supporters/ partners.

B. Objectives for 2005

41. The objectives are to achieve:

(a) Gross proceeds from card and gift sales of $9.7 million (i.e., 12.1 per cent higher than the 2004 latest estimates) with a card sales volume of 14.7 million cards (i.e., 8.9 per cent higher than the 2004 latest estimates).

(b) Total operating income of $14.3 million, (i.e., 21.1 per cent higher than the 2004 latest estimates, excluding investment funds).

(c) Net operating income from fund-raising of $12.3 million, and $2.6 million from sales of cards and gifts (excluding investment funds).

(d) Net proceeds from fund-raising of $17.0 million (i.e., 22.3 per cent higher than the 2004 latest estimates).

C. Strategies for 2005

42. The strategies to achieve the above objectives are:

(a) To provide strategic direction, assistance and hands-on support to the offices in the priority countries in Latin America, Asia, the Middle East and Africa;

(b) Based on the global fund-raising and sales strategies, to assist field offices in development and implementation of their country strategies, with emphasis on acquiring new donors and buyers;

(c) To work with field office staff to increase UNICEF visibility in-country and strengthen the brand, through advertising, public relations, high-profile fund-raising/sales activities and celebrities.

D. Analysis of the 2005 proposed budget

43. For 2005, UNICEF field offices are projected to generate $26.8 million in gross proceeds, an increase of $4.2 million (18.4 per cent) over the 2004 latest estimates (see table 5). This increase is attributable primarily to higher gross proceeds from fund-raising ($3.1 million) due to the expansion of ongoing fund-raising activities and starting operations in new markets (Malaysia, Montenegro, Serbia and Singapore) as well as higher proceeds from sales ($1.1 million) in the traditional key markets of Latin America and Asia.

44. Total operating expenses for field offices and PSD regional support centres in 2005 are projected at $9.9 million, an increase of $1.5 million (17.4 per cent) over the 2004 latest estimates. This is partially due to an increase in the number of posts by 10, most of them for fund-raising, impacting staff costs by $0.4 million. In addition, the increase in operating expenses is explained by the inflation factor ($0.4 million) and expanding activities at field offices, especially in new markets. The majority of the new posts resulted from regularization of temporary positions, mostly in Latin America, where the income potential is high and immediate. The regularization of the temporary posts is without any cost implications for PSD.

45. For 2005, the net operating income from field offices from both sales and fund-raising activities (excluding investment funds) is projected at $14.3 million, an increase of $2.5 million over the 2004 latest estimates. This increase is a result of a higher net operating income from Fund-raising ($2.1 million) and sales ($0.6 million) offset by increase in the expenses of the Operations and Finance group by $0.2 million.

Table 5

Regional support centres and UNICEF field offices: income and expenditures for 2003 actual, 2004 approved budget, 2004 latest estimates and 2005 proposed budget

(In thousands of United States dollars)

	2003 Actual				2004 Approved Budget				2004 Latest estimates				2005 Proposed budget				Changes 2005 vs. 2004 Latest estimates	
	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	$	%
Volume of card sales (in millions)	16.6		-	16.6	14.2		-	14.2	13.9		-	13.9	14.7	-	-	14.7	1.2	8.9
Gross proceeds (RR + OR)	7,956	19,396		26,352	10,037	16,963		27,040	8,851	13,017		22,868	9,799	17,046		26,754	4,188	18.4
Less: Commissions paid to consignees	635			635	1,241			1,241	1,197			1,197	1,199			1,199	53	4.6
Net proceeds	7,321	19,396	-	19,017	9,299	16,963	-	26,799	7,644	13,017	-	21,491	8,549	17,046	-	25,554	4,113	19.1
Costs of goods delivered	1,965			1,965	1,402			1,402	1,315			1,315	1,472			1,472	157	11.9
Operating expenses:																		
International posts	323	548	286	957	477	466	272	1,347	530	439	230	1,199	666	646	416	1,467	268	22.4
Local posts	1,166	749	46	1,961	1,626	1,138	66	2,710	1,387	1,107	66	2,649	1,626	1,477	66	3,068	519	19.9
Other post-related costs a/	1			1	246			246	81			81	31			31	(50)	(61.7)
Staff training	30	26	34	90	36	61	43	140	33	62	43	138	27	97	33	157	19	13.8
Other staff costs b/	662	291	6	979	366	334	7	726	427	346	7	780	470	462	7	966	186	24.1
Consultants	66	17		82	83	19		102	92	24		116	112	43		155	39	33.6
Travel	120	123	37	280	177	186	41	403	183	166	44	393	264	231	66	561	168	26.8
Other operating expenses c/	1,250	649	32	1,911	1,226	661	47	2,973	1,309	636	46	2,994	1,333	1,626	47	2,466	316	19.0
Furniture and equipment d/	66	23	6	96	66	27	6	91	63	27	6	96	89	91	6	116	27	36.3
Research and development	265	456		720	263	760		1,023	263	762		966	266	796		1,011	46	4.8
Total operating expenses	2,799	2,873	445	6,007	4,472	3,823	574	8,869	4,259	3,714	434	8,406	4,526	4,711	633	9,879	1,464	17.4
Other income	323	-	-	323	47	-	-	47	46	-	-	46	47	-	-	47	2	4.4
Net operating income before FDP & MDP	1,770	8,623	(445)	11,148	3,486	12,699	(574)	16,575	2,016	10,223	(434)	11,805	2,566	12,334	(633)	14,266	2,494	21.1
Percentage of gross proceeds	23	79		56	33	77		58	23	73		52	27	72		53		
Less: FDP	-	1,360	-	1,360	-	2,793	-	2,793	-	2,496	-	2,496	-	2,432	-	2,432	(64)	(2.6)
MDP	-			-	-			-	104			104	104			104	-	-
Net operating income after FDP & MDP	1,770	8,473	(445)	9,788	3,486	9,887	(574)	12,782	1,912	7,727	(434)	9,206	2,464	9,902	(633)	11,763	2,558	27.8
Percentage of gross proceeds	23	56		46	33	60		47	22	60		41	26	58		44		
Summary of expenditures:																		
Commissions	635	-	-	635	1,241	-	-	1,241	1,197	-	-	1,197	1,199	-	-	1,199	53	4.6
Cost of goods delivered	1,965	-	-	1,965	1,402	-	-	1,402	1,315	-	-	1,315	1,472	-	-	1,472	157	11.9
Total operating expenses (international posts, local posts, staff training, other staff costs, travel, other operating expenses, furniture and equipment, research and development, bad debts)	2,799	2,873	445	6,007	4,472	3,823	574	8,869	4,259	3,714	434	8,406	4,526	4,711	633	9,879	1,464	17.4
Total Expenditure	5,409	2,873	445	9,427	7,116	3,823	574	11,512	6,880	3,714	434	10,028	7,199	4,711	633	12,982	1,674	16.5

PSFR = private sector fund-raising; O&F = Operations and Finance; C&G sales = card and gift sales;

RR = regular resources; OR = other resources; FDP = Fund-raising Development Programme, MDP = Marketing Development Programme

a/ Termination indemnity;

b/ Short-term assistance, staff welfare and overtime.

c/ Contractual services, rent and maintenance of premises, rental and maintenance of furniture, equipment, communication supplies and materials, hospitality, information support services and miscellaneous services.

d/ Office equipment, computer equipment and computer software.

V. Medium-term plan, 2006-2009

46. Table 6 presents the medium-term plan for PSD for 2006-2009. The plan is based on market trends, the previous years' financial results, and strategic plans developed and implemented in cooperation with National Committees and field offices in PSD priority countries.

47. PSD objectives in the medium-term plan are to achieve by 2009:

(a) Net consolidated income for UNICEF from PSD of $584.0 million, comprising $384.0 million in regular resources and $200.0 million in other resources;

(b) Net operating income from fund-raising of $342.0 million for regular resources;

(c) Net operating income from fund-raising of $200.0 million for other resources;

(d) Net operating income from sales of cards and gifts of $63.0 million for regular resources;

(e) Gross proceeds from card and gift sales of $188.0 million;

(f) Card sales volume of 141 million.

Table 6
PSD medium-term plan: 2003 actual, 2004 approved budget, 2004 latest estimates, 2005 proposed budget and 2006-2009 projections
(In millions of United States dollars)

	2003 Actual	2004 Approved Budget a/	2004 Latest estimates	2005 Proposed	2006	2007	2008	2009
					Medium-term projections			
Gross proceeds - card and product sales	151.5	142.0	156.0	161.0	167.0	174.0	181.0	188.0
Less: Retention/commissions and direct expenses at field offices	52.4	42.0	54.5	56.1	57.0	59.0	60.5	63.0
Net proceeds - product sales	99.1	100.0	101.5	104.9	110.0	115.0	120.5	125.0
Less: Cost of goods delivered	29.1	30.5	32.6	34.3	35.0	36.5	38.0	39.5
Operating expenses	20.2	24.8	24.8	26.2	27.0	28.0	29.0	30.0
Provision for doubtful accounts	8.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Add: Other income	5.5	8.0	8.0	8.0	8.0	8.5	8.5	8.5
Net operating income - PSD card and product sales	47.1	51.7	49.1	51.4	55.0	58.0	61.0	63.0
Net operating income - PSFR	249.5	200.7	258.5	271.8	288.0	305.0	323.0	342.0
Less: Investment funds	13.5	16.4	16.4	17.1	18.0	19.0	20.0	21.0
Net operating income	283.1	244.0	291.2	306.1	325.0	344.0	364.0	384.0
Less: Exchange rate adjustment	(6.3)							
Net income - regular resources	289.4	244.0	291.2	306.1	325.0	344.0	364.0	384.0
Add: PSFR other resources	172.2	180.0	170.0	190.0	200.0	200.0	200.0	200.0
Net consolidated income	461.6	424.0	461.2	496.1	525.0	544.0	564.0	584.0
Card sales volume (millions)	*117*	*130*	*118*	*124*	*129*	*133*	*137*	*141*

PSFR = private sector fund-raising

a/ As approved by the Executive Board (decision 2004/2, paragraph 2)

Table 7
Range of budgeted income and expenditures for the fiscal year 1 January-31 December 2005
(In millions of United States dollars)

	I Low projection	*II Medium projection*	*III High projection*
Budgeted income			
Gross proceeds — product sales	158.0	161.0	164.0
Deduct: National Committees' retention[a]	50.5	51.0	52.0
Net proceeds	107.5	110.0	112.0
Add: Other income — net (table 1A)	7.8	8.0	8.5
Net proceeds — product sales	115.3	118.0	120.5
Private sector fund-raising — regular resources (table 1A)	278.0	285.0	293.0
Total net proceeds — regular resources	**393.3**	**403.0**	**413.5**
Budgeted expenditures			
Commissions — field offices	1.0	1.2	1.4
Cost of goods delivered	33.6	34.3	35.0
Marketing expenditures	24.5	25.2	25.8
Support services	18.6	19.1	19.6
Investment funds	17.1	17.1	17.4
Total expenditures — consolidated (table 2)	**94.8**	**96.9**	**99.2**
Net consolidated income — regular resources (table 1)	**298.5**	**306.1**	**314.3**
Add: Other resources — private sector fund-raising (table 1)	185.0	190.0	195.0
Net consolidated income — regular resources and other resources	**483.5**	**496.1**	**509.3**

[a] Excludes field office commissions — budgeted in expenditures.

VI. Draft resolutions

48. The draft resolutions for Executive Board approval relating to the PSD budget for 2005 are presented below.

A. Private Sector Division budgeted expenditures for the 2005 season

The Executive Board

1. *Approves* for the fiscal year 1 January to 31 December 2005 budgeted expenditures of $96.9 million as detailed below and summarized in column II of table 7 to document E/ICEF/2005/AB/L.1:

	(In millions of United States dollars)
Commissions — field offices	1.2
Cost of goods delivered	34.3
Marketing expenditures	25.2
Support services expenditure	19.1
Investment funds	17.1
Total expenditures, consolidated	**96.9**

2. *Authorizes* the Executive Director:

(a) To incur expenditures as summarized in column II of table 7 to document E/ICEF/2005/AB/L.1 and to increase expenditures up to the level indicated in column III of the same table should the apparent proceeds from card and gift sales and/or fund-raising increase to the levels indicated in column III, and accordingly, to reduce expenditures below the level indicated in column II to the extent necessary, should the net proceeds decrease;

(b) To redeploy resources between the various budget lines (as detailed in paragraph 1 above) up to a maximum of 10 per cent of the amounts approved;

(c) To spend an additional amount between Executive Board sessions, when necessary, up to the amount caused by currency fluctuations, to implement the 2005 approved work plan.

B. Budgeted income for the 2005 season

The Executive Board

Notes that for the period 1 January to 31 December 2005, PSD net proceeds are budgeted at $403.0 million (regular resources) as shown in column II of table 7 in document E/ICEF/2005/AB/L.1.

C. Policy issues

The Executive Board

1. *Renews* investment funds with $17.1 million established for 2005;

2. *Authorizes* the Executive Director to incur expenditures in the 2005 fiscal period related to the cost of goods delivered (production/purchase of raw materials, cards and other products) for the 2006 fiscal year up to $35.0 million as indicated in the PSD medium-term plan (see table 6 of document E/ICEF/2005/AB/L.1).

D. Medium-term plan

The Executive Board

Approves the PSD medium-term plan as reflected in table 6 to document E/ICEF/2005/AB/L.1.

Annex I

Private Sector Division: summary of post changes proposed for 2005

Detail	Posts level							Total IP	NO	GS	Grand total
	D-2	D-1	P-5	P-4	P-3	P-2	P-1				
Base PAT 2004	1	4	9	21	32	11	0	78	19	108	205
Establish and abolish											
Marketing			-1	1				0			0
Support services										1	1
RSCs and UNICEF field offices		1	-1		-1			-1	4	7	10
Total change, PSD	0	1	-2	1	-1	0	0	-1	4	8	11
Redeployment											
Marketing					1			1			1
Support services					-1			-1			-1
Total redeployment, PSD	0	0	0	0	0	0	0	0	0	0	0
Reclassifications, PSD											
Marketing				1	-1			0			0
Total reclassification, PSD	0	0	0	1	-1	0	0	0	0	0	0
Total changes and reclassification	0	1	-2	2	-2	0	0	-1	4	8	11
Total, Proposed 2005	1	5	7	23	30	11	0	77	23	116	216

IP = international Professional; NO = national officer; GS = General Service;
PAT = post authorization table; RSCs = regional support centres.

Annex II

Private Sector Division

Comparison of posts: 2004 approved budget versus 2005 proposed budget

	Posts level							Total IP	NO	GS	Grand total
	D-2	D-1	P-5	P-4	P-3	P-2	P-1				
Marketing											
Approved 2004		3	4	11	15	3		36		21	57
Proposed 2005		3	3	13	15	3		37		21	58
Change	0	0	-1	2	0	0	0	1	0	0	1
Support services											
Approved 2004	1	1	3	7	15	5		32		37	69
Proposed 2005	1	1	3	7	14	5		31		38	69
Change	0	0	0	0	-1	0	0	-1	0	1	0
Total, PSD headquarters											
Approved 2004	1	4	7	18	30	8	0	68	0	58	126
Proposed 2005	1	4	6	20	29	8	0	68	0	59	127
Change	0	0	-1	2	-1	0	0	0	0	1	1
RSCs and UNICEF field offices											
Approved 2004			2	3	2	3		10	19	50	79
Proposed 2005		1	1	3	1	3		9	23	57	89
Change	0	1	-1	0	-1	0	0	-1	4	7	10
Total, PSD headquarters											
RSCs and UNICEF field offices											
Approved 2004	1	4	9	21	32	11	0	78	19	108	205
Proposed 2005	1	5	7	23	30	11	0	77	23	116	216
Change	0	1	-2	2	-2	0	0	-1	4	8	11

IP = international Professional; NO = national officer; GS = General Service;
ROs = regional offices; RSCs = regional support centres.

Annex III

Private Sector Division business plan, 2005-2007

1. The Executive Board, at its first regular session of 2002, requested PSD to submit, as part of its work plan and budget proposal for 2003, a comprehensive business plan to be updated annually (decision 2002/6, E/ICEF/2002/8/Rev.1) and detailing the Division's contribution to the UNICEF MTSP. The business plan update covers the period 2005-2007.

I. Introduction

2. This business plan is the second update to the plan that was presented to the Executive Board in January 2003. It is based on a series of strategic reviews that took place within PSD during work plan and budget preparations. Strategies and projections have been fine-tuned in the context of the Joint Strategic Planning (JSP) process and in consultation with National Committees. The business plan is based on:

(a) The **MTSP**, which determines the overall organizational and strategic priorities of UNICEF and stipulates the medium-term funding requirements. As such, the MTSP guides PSD and National Committee fund-raising activities in terms of financial targets, investment priorities, advocacy support and brand development-related communication with the general public and institutional, private sector donors; PSD has actively contributed to the MTSP review.

(b) The **new brand model for UNICEF**, launched in 2003. The brand model defines the vision, positioning, values and essence of UNICEF. It provides the framework for the relationship between the brand properties, the MTSP, communication and the resource mobilization strategies;

(c) The strengthened **JSP process**. The JSP provides an assessment and forward-looking strategic action plan for each National Committee in terms of income-generation, leadership, advocacy, management of financial contributions and communications. For income-generation through sales and fund-raising, the JSP provides insight into the strengths of each National Committee relative to the state of the market and business development. The process then identifies and assesses specific areas for revenue growth/building under different assumptions related to the external environment and available human and financial resources;

(d) The **global private sector fund-raising strategy**, which addresses the global donor community within the private sector, including individual donors, corporations and organizations. The strategy will be in its third year of progressive implementation, driven by JSPs of an increasing number of National Committees, extensive training and a "share and compare" process aimed at improving best practices among National Committees and the use of investment funds linked to strategic priorities. The strategy continues to focus on best industry practices related to donor recruitment and successive upgrading, with the objective of maximizing donor "life-time value";

(e) The **global marketing and sales strategy**. The strategy recognizes the role of UNICEF cards and gifts as an effective and distinctive tool to promote

awareness of UNICEF and to establish a relationship with individuals and corporations who could eventually become donors. In this sense, card and gift activities complement fund-raising activities and can drive important synergies among buyers and donors. The main focus is on boosting the volume of sales and proceeds from cards and gifts by broadening their distribution base via customized products to better target the high-end consumer and corporate markets;

(f) A **PSD internal analysis** of the increasingly complex and evolving market place. In 2004, three macro trends were taken into account in the forward planning of PSD: a significant increase of competitive activity in both fund-raising and sales of cards and products; the emergence of growing economies in several countries, especially in Central and Eastern Europe, Asia and Latin America; and the fast development of new electronic and digital technologies that are opening up new support media and changing the way to interact with various targeted groups.

3. Furthermore, the business plan aims to incorporate the increased corporate emphasis on supporting greater resource mobilization efforts among field offices "in transition" and on providing special investment support to emerging opportunities, including those linked to the European Union accession countries in Central and Eastern Europe.

II. Income targets for 2006-2007

4. The PSD objective is to raise $544.0 million in net consolidated income in 2007 (18 per cent higher than that for 2004), comprising $344.0 million for regular resources and $200.0 million for other resources. The biggest contribution will come from fund-raising, at $482.8 million (18 per cent higher than the projected 2004 figure), while the sale of greeting cards and gifts are expected to bring $61.2 million net income (17 per cent higher than the projected 2004 figure).

III. Fund-raising

A. Introduction

5. The global fund-raising strategy, adopted by National Committees at their annual meeting in May 2003, provides guidance for the future. Its primary goal is to raise $450.0 million in net proceeds for UNICEF by 2005. The latest estimate for 2004 indicates that this goal is not only well within reach but may be exceeded by $25.0 million.

6. Efforts will go into benchmarking, training, "share and compare", focusing on the four income-generating "pillars" of pledge-giving, major gifts, legacies and corporate alliances. The fund-raising "think tank", comprising senior fund-raisers from 12 National Committees and UNICEF, will assume responsibility for monitoring and pushing implementation of the strategy through the JSP process and for more tactical campaign planning and prioritization in annual work plans.

7. Recognizing the emerging potential in various field office markets, PSD is developing a comprehensive fund-raising strategy for field offices so that they can increase the proportion of private sector proceeds raised (currently 3 per cent of the total net proceeds). The strategy will also cover countries in transition.

8. PSD, through its International Corporate Alliances section, will continue proactively to search for and develop global/cross-border alliances with companies of choice. PSD cross-border/global fund-raising also continues to explore opportunities that target private individuals through new interactive media such as the Internet, interactive television and short message service and international media networks such as CNN and STAR Television in Asia. As a global brand, UNICEF can "skim" a global market place while respecting revenue-sharing principles among participating National Committees.

9. The table below shows the fund-raising net contribution to UNICEF by source for 2003 (actual), 2004 (latest estimate), and 2005-2007 (projected).

Fund raising income

(Objectives in million dollars)

	2003 (A)	*2004 (LE)*	*2005 (OBJ)*	*2006 (OBJ)*	*2007 (OBJ)*
Cash Appeals	152	145	140	135	130
Regular Monthly Giving	126	134	150	165	180
Corporate	38	45	50	55	60
Legacies	38	40	45	50	55
Collections	30	35	38	40	42
Foundations/NGOs	32	35	38	40	42
Major gifts	12	13	16	20	26
Other	56	40	48	50	50
Total net proceeds	**484**	**487**	**525**	**555**	**585**
Allocated costs for admin/advocacy	52	47	50	53	65
Total net proceeds to UNICEF	**432**	**440**	**475**	**502**	**520**

A = Actual;
LE = Latest estimate;
OBJ = Objective.

B. Fund-raising strategies

10. The above-mentioned targets will be reached by implementing the strategies described below.

11. **Cash appeals.** Direct mail is the foremost method used by UNICEF to raise funds from individuals giving small, one-off donations. In 2003, 31 per cent ($152.0 million) of the fund-raising proceeds were raised through cash appeals sent to more than 7 million donors. This technique will remain an important contributor. Online donations will form an increasing share of cash appeal income. Conversion to regular monthly giving, however, will lead to a continuous slight decrease in this category of income. Emergencies have a major impact on income from cash appeals.

12. **Regular monthly giving.** Asking for monthly committed gifts by automatic funds transfer (in UNICEF called "pledge income") is receiving increasing

investment attention, both from National Committees and PSD, as it represents the biggest source of revenue growth. In pledge share of income, UNICEF is far behind some industry leaders and child sponsorship agencies. Pledge donations currently generate $126.0 million, or 26 per cent of fund-raising proceeds, and are projected to increase by more than 40 per cent by 2007, to represent $180.0 million, or 31 per cent of the total income. New recruitment methods include face-to-face fund-raising in city centres (now practiced by more than 10 National Committees) and television telethons. New creative initiatives will help UNICEF develop more attractive and competitive offers for donors. Noteworthy in this respect is the Global Parent concept, developed by the Australian National Committee, which has also been adopted by the National Committees of Canada, Ireland and Norway, with initial success. The search for new "pledge product offers" combining advocacy and fund-raising is expected to attract younger supporters.

13. **Major gifts.** With the ongoing shift in income sources, from institutions to individuals, major gifts represent an important growth area to fund-raising income. Currently, 3 per cent ($12.0 million) of proceeds come from major gifts given by private individuals. Only two National Committees (the United States and the United Kingdom) have a fully developed and properly staffed major gifts programme in operation. By 2007, given the market's overall potential, focused investment and training will help to increase this revenue source to 4 per cent of the total proceeds ($26.0 million).

14. **Legacies.** The fund-raising strategy calls for increased investment in legacies in key National Committee markets where opportunities have been identified. The implementation of this strategy is expected to grow legacy income to a projected $55.0 million, or 9 per cent of the total.

15. **Corporate fund-raising.** Capacity-building among National Committees and selected field offices will remain a high priority in the pursuit of successful fund-raising alliances with the corporate sector. PSD, through its International Corporate Alliances section, will work with key markets to grow existing national-level relationships into more lucrative regional or global partnerships. Together with new global initiatives, corporate fund-raising is projected to increase from $38.0 million in 2003 (8 per cent of the total income) to $60.0 million (10 per cent of the total).

16. **Collections.** Collections, or donations that do not generate a name and address allowing follow-up with renewed appeals, form an important complementary source of income, which is expected to remain at around 7 per cent of net proceeds.

17. **Foundations/NGOs.** This category incorporates grant-giving foundations as well as service clubs such as Rotary and Lions. This income is expected to remain at 7 per cent of net proceeds.

18. **Other fund-raising income.** This category comprises income that has not been allocated to any of the categories above. In 2003, it amounted to $56.0 million. Currently, PSD is not able to analyse what is contributed by National Committees under this heading. However, the introduction of the Revenue and Expenditure Report (RER) package (see below) will allow for a more accurate allocation of income by source. Hence, the share of the "other" category should drop by 2007.

19. **Reporting.** The improved reporting mechanism has allowed PSD to track progress by revenue source and to start to benchmark performance across National Committees and field offices in a consistent manner. The RER was launched in

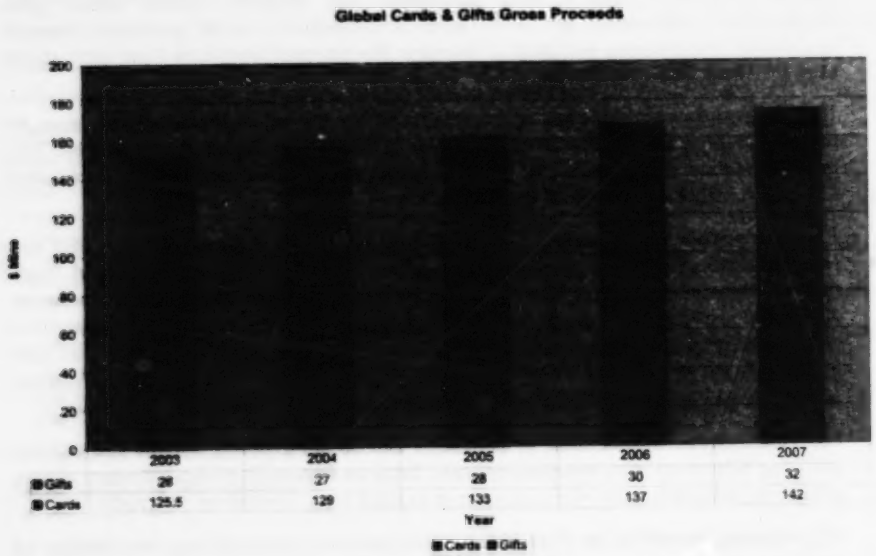
2003, and as of 2004 actual reporting will have been sufficiently institutionalized to respond to the enhanced diagnostic needs of PSD.

IV. Marketing and sales overview

A. Introduction

20. The global marketing and sales strategy provides guidance for the future development of the greeting card and gift business of National Committees and field offices. The target of PSD is to generate $61.2 million net operating income by 2007, based on $174.0 million gross proceeds and 133.0 million cards sold. This translates into an average annual growth of 4 per cent in gross proceeds, 8 per cent in net operating income and 4 per cent in card sales volume.

21. As shown in the table below, greeting cards are expected to remain the core business and source of income, yielding $142.0 million (about 82 per cent of total gross proceeds), followed by gifts, yielding $32.0 million.



22. The goals stated above are considered achievable because there is still untapped business potential behind UNICEF greeting cards and products, which can be accessed when the many strengths of UNICEF are properly leveraged. The UNICEF brand image is strong across the globe, and the UNICEF cards and products are perceived to be of top quality and marketed at a price level consistent with the organization's superior image. Additionally, the UNICEF share of the market, below 1 per cent in most countries, shows room for expansion. And contrary to a widespread perception, the global greeting card market is expanding rather than shrinking. In sum, the fundamentals of the business are strong and, provided we have adequate resources allocated to sales through National Committees and field offices, we can expect further income growth.

23. To achieve the goals set forth, it is necessary to focus on the key priorities identified in the global marketing and sales strategy and to significantly develop the internal processes, organizational culture and skills profiles of PSD and National Committees.

B. Marketing and sales strategies

24. PSD, National Committees and field offices will achieve the above-stated targets by following the key strategies described below.

25. **Broaden distribution of cards and gifts.** Distribution remains the single biggest opportunity to drive business growth. UNICEF cards and gifts are still sold mainly through direct mail, whereas the bulk of the market is in other channels that are increasingly being pursued, such as retail chains, shopping malls and other high-traffic venues. In 2004, this strategy began to show concrete results. These include the strengthening of several existing partnerships, such as those with Pier 1 and Ikea, and the establishment of new partnerships, such as those with the Post Office in Portugal and Tesco in Slovakia. Broadening distribution, an imperative for the coming years, will require the full support of the National Committees and their commitment to invest in qualified key account managers with the necessary ad hoc experience required to build successful relationships with retailers.

26. **Maximize effectiveness of direct marketing.** Direct marketing represents about half of the total sales for UNICEF and allows a very targeted approach to buyers. This segment of the business will continue to be developed, with a focus on increasing response rates and average order value by offering a better mix of higher-priced gift products and improving targeting techniques and database behavioural analysis. Efforts will be supported by prompting techniques such as telemarketing. In several National Committees, important synergies between fund-raising and sales have been created by merging the two respective databases into one and by appointing one database manager responsible for the entire direct marketing programme. In 2004, a significant increase in direct marketing-driven sales was observed in the Committees that had implemented this approach. More is also being learned about the new direct marketing opportunities presented by the development of the Internet.

27. **Develop corporate customers.** Corporate greeting cards, responsible for about 40 per cent of total cards proceeds, represent the most profitable part of the greeting card market. Often, these card sales serve as a point of entry for even more profitable fund-raising initiatives. Recent market analysis suggests that UNICEF is the market leader in this segment and has the potential to further consolidate its position by offering more personalized services in the cards and dated products (calendars, agendas etc) areas. In 2004, an investment was made in broadening the offer significantly (via the Customized Business Cards programme) and in changing internal processes to ensure top-quality customer service. The number of markets offering customized services was also increased. Early results are very positive, and plans are being made with National Committees to further develop this part of the business over the next four years. Success will also depend on the commitment of the National Committees to investing in key account managers who can develop the business with large and medium corporate clients.

28. **Attract consumers with a unique offer year round.** The competition (other United Nations agencies, non-governmental organizations and private companies) is increasing steadily while continuing to regard UNICEF cards and products as the benchmark to imitate or beat. UNICEF remains very committed to staying ahead of competition and to offering a superior experience to buyers and consumers of cards and gifts. In 2004, considerable resources were invested in stepping up the quality and breadth of the product offer, bringing the UNICEF collections to a higher level. The plan is to keep the same standards in 2005 and beyond. To maintain its leadership, UNICEF will continue to focus on the areas described below.

(a) **Ensure that UNICEF cards and gifts are unique.** The design and selection of UNICEF cards and gifts have to reflect the essence of the UNICEF brand — that is, the world of children and the global multicultural and multi-ethnic character of the organization. In addition, efforts will continue in offering high-quality cards and in further increasing the quality of gifts to meet customer demand. Work has also started in assessing the potential of the e-greeting business, to be tested in the coming months and rolled out globally beginning in 2005 if results are positive.

(b) **Increase the UNICEF offer of gifts.** Gifts are the fastest-growing part of the business across most markets. The offer has almost doubled over the last year, and confirmation is sought for further confirmation of this growth trend in 2004. PSD aims to be equipped to tap into this high-potential but also extremely competitive market. To this end, in 2005, the gifts development team based in Geneva will be reorganized. Efforts will be made to bring in more senior competencies and to improve internal processes across the entire value chain, from concept development to sourcing.

(c) **Continue to develop year-round sales.** Currently, more than 80 per cent of UNICEF sales are still generated during the Christmas period, while for the industry at large the figure is only 40 to 50 per cent. Hence, there is a huge potential for UNICEF to be present year round, provided that the distribution base is expanded. In 2004, PSD launched the Permanent Collection, a collection of cards and gifts tailored to different seasonal campaigns, to newer channels such as Internet sales and to offers for special events such as Mother's Day. A broader range of price points was introduced to meet the needs of buyers with varying spending patterns. The Permanent Collection will continue to be developed to strengthen year-round business.

29. **Leverage possibilities through the Internet to attract young consumers and develop corporate business.** With its increased penetration into millions of households and into virtually every company, the Internet has become a high-potential distribution channel through which UNICEF can reach new and different individuals and companies, as opposed to those reached via such traditional channels as direct marketing or volunteers. By 2004, many National Committees had improved their sites, recording significant increases in sales. In close collaboration with the Division of Communication, PSD will focus on maximizing the use and effectiveness of web sites.

30. **Leverage the unique outreach capabilities of volunteers to build personal relationships with buyers and donors.** About 25 per cent — and in some markets up to 50 per cent — of global sales are made through volunteers. PSD will fully consider the uniqueness of this channel in developing its collections and point-of-

sales materials and in its efforts to maximize sales and manage stocks more effectively.

31. **Develop licensing.** Licensing is a growing source of income and an effective way to broaden the presence of UNICEF in markets that are not viable for its products. PSD is developing a licensing strategy that should be implemented beginning in 2005.

32. **Focus on cost reductions.** A significant increase of about 30 per cent was observed in the National Committees' retention applied to cards and gifts over the last three years, a figure that did not correspond to a comparable growth in gross proceeds. The increase is due to several factors, including a more competitive environment, the growing general overhead and advocacy costs that are allocated pro rata between sales and fund-raising, and greater warehouse and logistic costs driven by high distribution-to-sales ratios. Together with National Committees, UNICEF must pursue a more efficient management of the complex supply chain. Over the next several years, information technology will be used to develop a significantly more efficient and flexible ordering and replenishment system aimed at providing "the right product at the right time" to the National Committees while minimizing stocks both at the central warehouses and various supply sites. This will also help to reduce returns of unsold products at the end of the sales season. The potential to negotiate products and services at central level will also be explored in order to leverage scale and secure lower prices for National Committees than prices achieved locally.

Organization and processes

33. To execute the above strategies, it is important to have the right organizational set-up, competencies and work processes in place.

34. PSD and National Committees are becoming increasingly market-oriented, gradually leveraging synergies between fund-raising and sales. Evidence shows that National Committees and field offices that link the two areas and set up their organizations holistically deliver more efficient income growth.

35. Knowledge of markets and competition is another essential area in which PSD will continue to invest. The PSD market research team is significantly supporting internal decision-making, especially in such areas as product development and the identification of new distribution opportunities.

36. Finally, PSD will provide coaching and training to its staff, National Committees and field offices to help them acquire the skills needed to engage professionally with new business channels, such as those in retail and new media.

V. Strategic emphasis for Operations and Finance

A. Operation Support Services

37. For the business plan for 2005-2007, the priority of the Operation Support Services (OSS) is to support the broadening of the cards and gifts offer, to further increase the level of customer service provided to the National Committees and field

offices and, at the same time, to identify and pursue aggressive cost savings throughout the supply chain.

38. To offer unique cards and gifts year round, OSS will work closely with the rest of PSD to:

(a) Increase the suppliers' base for all cards and gifts, both the industrially produced items and the multicultural and multi-ethnic handcrafted products;

(b) Seek suppliers in new emerging markets that meet the quality requirements of UNICEF at more attractive prices;

(c) Identify potential global vendors that could efficiently supply UNICEF with a wide range of gift products in order to reduce the time to market and increase responsiveness to unforeseen increases in demand.

39. PSD will work increasingly with third-party suppliers of inspection services in two very important areas — pre-vendor (manufacturing site) qualifications and final random inspections of individual products. This effort will help to identify upfront reliable suppliers and to ensure that their final production meets the organization's technical specifications.

40. To support the development of the Customized Business Cards programme, OSS will take advantage of the latest digital production techniques. These will allow UNICEF to offer a full range of services to its customers and gain flexibility that will improve reaction to market needs at short notice.

41. To provide further improvements in customer service, OSS plans to work more closely with National Committees to review the entire supply chain and identify new ways to automate and increase the efficiency of the various phases of operations, from order placement to order fulfilment to stock management of returns. To date, most of the data have been manually exchanged between the headquarters and National Committees. The plan is to leverage the web and FLS to run the operation in a significantly more efficient and effective way. The potential to work with a global external logistic partner will be explored to offer a "just in time" replenishment system to the National Committees.

42. To aggressively pursue cost savings, OSS will look for ways to drive efficiencies throughout the supply chain. The adoption of a "cost saving" mindset will be essential over the next several years help to offset the rising cost of goods linked to oil price increases. In 2004 alone, an increase of road and container freight costs of about 30 per cent was observed. This upward trend in costs is expected to continue in the new business cycle and to affect the base costs of raw and finished materials. The paper and printing industry is heavily energy dependent, and the suppliers will pass on their cost increases to clients.

43. In 2005, PSD will work closely with National Committees to reduce their distribution-to-sales ratios and the associated logistic and transport costs.

B. Finance and Administration

44. The Finance and Administration section has gone through an intensive consolidation period over the last two years. The review that was begun of areas of accountabilities and various key processes will continue. Planning and reporting

principles and practices are being reviewed for further streamlining, in collaboration with the Regional Office for Europe and National Committees. Recommendations will be implemented in 2005-2006, and relevant operating procedures will be compiled accordingly.

45. During 2004, the new annual RER by National Committees was implemented, with encouraging results and enhanced transparency. Unified reporting and database management will provide a solid basis for benchmarking and dissemination of best practices and comparative analyses for strategic decisions.

46. Increased resource mobilization by more field offices is continuing, and a special field office fund-raising strategy is under preparation. In this context, the underlying operational principles and procedures will be reviewed and revised so that they respond to new and fast-changing financial and administrative challenges. These will be addressed through a cross-sectoral working group. Stabilization and coordination of systems, procedures and guidelines for global application will require additional resources over the planning period.

C. Information technology

47. A fast-evolving technical environment continues to challenge PSD and its IT systems. The primary system supporting these functions is the UNICEF FLS based on the SAP. Enhancement of the global PSD connectivity will be carried out to facilitate an effective and efficient working relationship among four key PSD teams in Geneva, New York, Panama and Bangkok. The business intelligence tool Cognos data analysis will be introduced to provide time-critical analysis for financial and supply chain decisions.

48. IT systems will be further strengthened and enhanced to support the business process and work flow redesign. Improvements will be made to several modules to better rationalize various parts of the complex PSD operations. These areas include artwork development, sourcing of products, order fulfilment, inventory and logistic management and the costing system as well as budget monitoring.